TRADE SECRET PROTECTION IN OHIO AND THE PROPOSED FEDERAL STATUTE

One writer sums up the law with respect to trade secrets in the following manner: "[T]he cases follow no set pattern, even though there are a few basic principles. No single decision or group of decisions can be construed as providing a conclusive answer to any particular fact situation."[1] Additionally, many writers discussing this muddled area have found it necessary to conclude the following:

> [T]he effect of existing trade secret law on the national interests has been more detrimental than beneficial. Because of its inordinate complexity, the law of trade secrets is unpredictable even within a particular jurisdiction. As a result, trade secret owners are overprotected, often at the expense of their employees, and always to the ultimate detriment of society. In the absence of legislative guidance, the courts have been unable to formulate satisfactory criteria for balancing the parties' rights. Moreover, the interests of the general public have been virtually ignored.[2]

Even the most cursory perusal of the cases dealing with trade secret law reveals that these contentions are correct. The courts' application of the law, even to the same general sets of facts, may differ markedly from one state to another and even within a single state.

This Note will consider state and federal remedies for Ohio employers, with special consideration of (1) the proposed federal Unfair Competition Act,[3] (2) possible implied conditions in employment contracts, and (3) suggested instructive clauses which will provide maximum protection for trade secrets.

I. THE OHIO LAW OF TRADE SECRETS

Traditionally, the Ohio courts have applied a strict set of requirements in determining what constitutes a trade secret; however, they have lately demonstrated a tendency to both liberalize and expand their definition. In 1964, as a part of its decision in *B. F. Goodrich Co. v. Wohlgemuth*,[4] one court of appeals of Ohio adopted in part the definition of the Restatement of Torts.[5] Then in 1965, in

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1 Schatzel, *Trade Secret Dilemma*, 38 U. COLO. L. REV. 311, 314 (1966).

2 Note, *The Trade Secret Quagmire—A Proposed Federal Solution*, 59 MINN. L. REV. 1049 (1966) [hereinafter cited as Trade Secret Quagmire].

3 S. 1154, 90th Cong., 1st Sess. § 43(a)(4) (1967).

4 117 Ohio App. 493, 192 N.E.2d 99 (1963).

5 RESTATEMENT OF TORTS § 757, comment *b* at 5 (1939):

> A trade secret may consist of any formula, pattern, device or compilation

Albert B. Cord Co. v. S & P Management Services, Inc.,[6] a common pleas court defined a trade secret as "almost anything and everything useful or advantageous in business activity that is not generally known or easily or immediately ascertainable to members of the trade."[7] While this definition apparently indicates a conclusion by one Ohio court that the term trade secrets in a general sense is incapable of definition, other courts have been willing to decide on a case to case basis whether a trade secret does exist and, if so, whether it should be protected.[8] The courts have created certain guidelines to apply to the facts of each case enabling them to conclude that a trade secret does or does not exist.[9]

Among the traditional approaches to trade secrets law has been one which grants relief on the basis that the employer has some property right in the subject matter of the trade secret and that the defendants have in some way violated the employer's property right. A second major approach, and the one adhered to presently by nearly all jurisdictions, grants relief on the basis that the employer and the employee were in a confidential relationship and that the employee's use or revelation of the secret information breached that confidential relationship.

One of the requirements for a trade secret is the rather obvious one that a trade secret must to a certain degree be secret.[10] The Ohio courts have, when considering secrecy, referred to the secret as a property right,[11] but this view has fallen into general disfavor in the vast majority of the states. The United States Supreme Court as long ago as 1917 stated:

> [t]he word property as applied to . . . trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable secret

of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.

6 194 N.E.2d 173 (Ohio C.P. 1963), *rev'd on other grounds*, 2 Ohio App. 2d 148, 207 N.E.2d 247 (1965).

7 *Id.* at 175.

8 Note, *Customer Lists As Trade Secrets in Ohio*, 18 W. RES. L. REV. 232 (1966).

9 *Id.* at 234. Among the factors that the courts have considered are: secrecy, novelty, means of procuring or developing it, breach of confidence reposed in the employee by the employer.

10 B. F. Goodrich Co. v. Wohlgemuth, 117 Ohio App. 493, 192 N.E.2d 99 (1963).

11 Cleveland Worm & Gear Co. v. Noyes, 17 Ohio N.P. (n.s.) 529 (C.P. 1915).

> or not the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied but the confidence cannot be. Therefore the starting point for the present matter is not property . . . , but that the defendant stood in confidential relations with the plaintiffs.[12]

As the property theory of trade secrets fell into general disrepute, evidenced by the Supreme Court's opinion in the *Masland* case, the theory of the breach of a confidential relationship as the primary basis of recovery achieved a preferred position. The present trade secret cases almost universally turn on the existence and breach of a confidential relationship.[13]

It is a generally accepted principle that after termination of his period of employment an employee may enter into competition with his former employer.[14] In addition, the employee may, in the absence of a restrictive contract provision, utilize the skill and general knowledge, other than trade secrets, that he acquired while engaged in his former employment.[15]

> What is entitled to protection is 'knowledge confidentially gained' but 'an employer cannot prevent his employee from using the skill and intelligence acquired through experience received in the course of the employment. The employee may achieve superiority by every lawful means and upon the rightful termination of his contract use that superiority for the benefit of rivals in business of his former employer.'[16]

While, absent some type of restrictive covenant inserted in the contract of employment or separately executed, the employer cannot prevent the use of the general knowledge and skill of a former employee even though acquired in the course of the former employment;[17] the employee cannot lawfully reveal to third persons or use

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12 E. I. DuPont de Nemours Powder Co. v. Masland, 244 U.S. 100, 102 (1917).

13 Schmidinger v. Welsh, 243 F. Supp. 852 (D.N.J. 1965); A.H. Emery Co. v. Marcan Prod. Corp., 268 F. Supp. 289 (S.D.N.Y. 1967); Curry v. Marquart, 133 Ohio St. 77, 11 N.E.2d 868 (1937); B. F. Goodrich Co. v. Wohlgemuth, 117 Ohio App. 493, 192 N.E.2d 99 (1963); Perfect Measuring Tape Co. v. Notheis, 93 Ohio App. 507, 114 N.E.2d 149 (1953).

14 Inboden v. Hawker, 41 N.E.2d 271, 276 (Ohio App. 1941); Curry v. Marquart, 133 Ohio St. 77, 11 N.E.2d 868 (1937).

15 B. F. Goodrich Co. v. Wohlgemuth, 117 Ohio App. 493, 500, 192 N.E.2d 99, 105 (1963).

16 Standard Brands, Inc. v. Zumpe, 264 F. Supp. 254, 268 (E.D. La. 1967). Quoting from Official Aviation Guide v. American Aviation Associated, Inc., 150 F.2d 173, 178 (7th Cir. 1945), *cert. den.* 326 U.S. 776.

17 Inboden v. Hawker, 41 N.E.2d 271, 276 (Ohio App. 1941).

in establishing a business of his own the knowledge of the former employer's trade secrets that he gained by virtue of his employment.[18] The nature of the employment creates between the employee and employer such a relationship of confidence and trust that the employee is estopped from revealing those secrets to anyone or using them himself.[19] There is implied an obligation on the employee not to disclose or use the trade secrets in any manner that would constitute a breach of that confidential relationship.[20] However, this confidential relationship will be deemed to arise, in the absence of a restrictive covenant, only when the knowledge that the former employee has gained was entrusted to him in confidence.[21]

> An employer who institutes adequate security precautions permits the courts without strained interpretations to recognize the confidential relationship, to assert the importance of good faith, and to point up its presence in a very practical and ethical way.[22]

It is advisable for the employer having a valuable secret to attempt to minimize any unnecessary revelations of the secrets to those persons whose employment does not require knowledge of the information. A failure to restrict unnecessary intra-company dissemination might serve as evidence that adequate security precautions were not initiated or maintained to preserve the secrecy of the information. Employers should institute measures that assure evidence of the factors set forth in the Restatement of Torts.[23] The Ohio courts grant no presumption of secrecy to the employer seeking pro-

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18 B. F. Goodrich Co. v. Wohlgemuth, 117 Ohio App. 493, 192 N.E.2d 99, 100 (1963).

19 *Id.* at 493, 192 N.E.2d at 101.

20 Perfect Measuring Tape Co. v. Notheis, 93 Ohio App. 507, 114 N.E.2d 149 (1953).

21 *Id.* at 507, 114 N.E.2d at 150.

22 Harris & Siegel, *Trade Secrets in the Context of Positive Competition,* 10 IDEA 297, 315 (19666). IDEA is Idea: Patent Trademark and Copyright Journal of Research and Education.

23 RESTATEMENT OF TORTS § 757, comment *b* at 6 (1939). Some factors to be considered in determining whether given information should be protected as one's trade secret are: (1) The extent to which the information is known outside the business; (2) The extent to which it is known by employees and others involved in his business; (3) The extent of measures taken by the employer to guard the secrecy of the information; (4) The value of the information to him and his competitors; (5) The amount of money or effort expended by him in developing the information; (6) The ease or difficulty with which the information could be properly acquired or duplicated by others.

tection, and the employer has the burden of proof as to whether the subject matter involved is a trade secret of his business.[24] If the employer does not fulfill the burden of proving it is a particular trade secret of his business, he cannot claim that subject matter as a trade secret.[25] In addition the employer must demonstrate that he has taken adequate security measures to protect his secrets.[26]

II. Remedies

A. *Present State Remedies*

A variety of remedies are available to the employer injured or in imminent danger of being injured through disclosure of his trade secrets. His remedies at law include damages for deceit, compensatory damages for breach of contract, either express or implied, punitive damages, and costs.[27] The remedy most commonly given by courts of equity is a temporary[28] or permanent[29] injunction.

The injunction may be used to prohibit the use or disclosure of a trade secret, is available although no right of the employer has yet been violated, and may issue regardless of whether the employer and employee have agreed expressly that the employee would not use or disclose the information.[30] It may compel surrender of the embodiments of the trade secret,[31] or may require sublicensing to the former employer of any patents that were procured through use of the wrongly appropriated trade secret.[32] Other remedies that may be obtained from a court of equity[33] include enforcement of a covenant of non-competition with the former employer,[34] or of a cove-

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24 Arthur Murray Dance Studios, Inc. v. Witter, 105 N.E.2d 685, 709 (Ohio C.P. 1952).

25 Cameron Mach. Co. v. Samuel M. Langston Co., 115 A. 212 (N. J. Cl. 1921).

26 B. F. Goodrich Co. v. Wohlgemuth, 117 Ohio App. 493, 192 N.E.2d 99 (1963).

27 Trade Secret Quagmire, *supra* note 2, at 1053.

28 *E.g.*, Space Aero Products Co. v. R. E. Darling Co., 238 Md. 93, 208 A.2d 74 (Ct. App. 1965).

29 *E.g.*, A. D. Smith Corp. v. Petroleum Iron Works Co., 74 F.2d 934 (6th Cir. 1935).

30 B. F. Goodrich Co. v. Wohlgemuth, 117 Ohio App. 493, 192 N.E.2d 99 (1963).

31 Ernst Slide Fastener Co. v. Stamberg, 120 N.Y.S.2d 311 (Sup. Ct. 1953). "Embodiments" refers to such things as drawings, sketches, blueprints, and any machines, tools, etc. which the employee caused to be constructed through wrongful use of the employer's trade secret.

32 Seismograph Service Corp. v. Offshore Raydist, Inc., 135 F. Supp. 342 (E. D. La. 1955).

33 *See* Trade Secret Quagmire, *supra* note 2, at 1053.

34 Junker v. Plummer, 320 Mass. 76, 67 N.E.2d 667 (1946).

nant of non-disclosure of confidential information or trade secrets,[35] award of a reasonable royalty for use of the trade secret,[36] and a reconveyance of the misappropriated trade secret.[37] This latter remedy assumes an analysis of a trade secret being property.[38] An injunction may also be obtained restraining the new employer from using the information with knowledge of the confidential relationship, and in this situation it has sometimes been said that the new employer becomes a constructive trustee of the subject matter of the trade secret.[39]

A court is not precluded from granting injunctive relief against former employees by virtue of the absence of any employment contract covenant not to compete.[40] However, such relief will be ganted the former employer only upon a showing of convincing proof of a harmful violation of his rights.[41]

The desirable scope of the injunction is an issue which has received considerable debate in the cases. Most courts now refuse to grant permanent injunctions restraining the use of trade secrets, although such a remedy is sometimes given.[42] There are three alternatives to the scope to be given an injunction in respect of a misappropriated trade secret.[43] One view holds that a permanent injunction may issue without regard to public disclosure of the trade secret. Under this view the guilty parties can never utilize the fruits of their misdeeds.[44] The second is that, after the secret has been publicly disclosed, even by the misappropriators, no injunction may issue.[45] The third alternative is that the appropriate period for the injunction to run is that period of time which competitors would

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35 Stone v. Goss, 65 N.J. Eq. 756, 55 A. 736 (1903).

36 Engelhard Industries v. Research Instrumental Corp., 324 F.2d 347 (9th Cir. 1963).

37 Pen Carbon Manifold Co. v. Tomney, 90 N.J. Eq. 233, 110 A. 445 (1919).

38 In addition to these remedies the misappropriating employee may be subject to criminal sanctions. *See* 7 B.C. IND. & COM. L. REV. 324, 326-29 (1966).

39 By-Buk Co. v. Printed Cellophane Tape Co., 163 Cal. App. 2d 157, 167, 329 P.2d 147, 148 (1958).

40 United Insurance Co. v. Dienno, 248 F. Supp. 553 (E.D. Pa. 1965).

41 American Alloy Steel Corp. v. Ross, 149 Cal. App. 215, 219, 308 P.2d 494, 497 (1957).

42 *E.g.*, Kelite Corp. v. Khem Chemicals, Inc., 162 F. Supp. 332 (N.D. Ill. 1958).

43 Winston Research Corp. v. Minnesota Mining & Mfg. Co., 350 F.2d 134, 141-42 (9th Cir. 1965).

44 Shellmar Prod. Co. v. Allen-Qualley Co., 87 F.2d 104 (7th Cir. 1936).

45 Conmar Prod. Corp. v. Universal Slide Fastener Co., 172 F.2d 150 (2d Cir. 1949).

require after public disclosure to develop a similar product. The period is computed as if the defendants had not misappropriated the secret and the industry in general did not have the tainted information to develop similar products.[46] This latter position is more acceptable when it is considered that generally the owner of a trade secret has no property right in that secret. "Relief is granted only when someone attempts to use the secret in violation of some general duty of good faith such as an abuse of confidence."[47] Since the employer's "property" has not been stolen, but only his trust abused, it would seem that to enjoin the miscreants forever, even after the secret has been legitimately discovered elsewhere, might be an excessively harsh remedy unsuited to the injury. On the other hand, to permit the wrongdoer to enjoy the fruits of his wrong and escape injunctive sanction because the secret has subsequently become known to the public makes a mockery of the honest man. The better approach is that which follows the middle path of enjoining the defendants for that period of time that would have been necessary for the secret to become general public knowledge absent their wrongful acts.

B. *A Proposed Federal Statute*

Proposed section 43(a)(4) of the Unfair Competition Act is designed as an amendment to the Lanham Act.[48] The section is a part of the McClellan Bill introduced in 1967, and which at the time of this writing is still in committee.

The bill is basically jurisdictional and is designed to give the federal courts original jurisdiction over unfair competition actions concurrent with the state courts.[49]

> The proposed federal unfair competition statute is offered ... to provide a basis for a uniform federal law of unfair compe-

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46 Winston Research Corp. v. Minnesota Mining & Mfg. Co., 305 F.2d 134, 141-42 (9th Cir. 1965).

47 Schulenberg v. Signatrol, Inc., 50 Ill. App. 2d 402, 405, 200 N.E.2d 615, 617 (1964).

48 15 U.S.C. §§ 1051-1127 (1946). S. 1154, 90th Cong., 1st Sess. § 43(a)(4) (1967). § 43(a)(4) reads as follows:

> (a). Any person who shall engage in any act, trade practice, or course of conduct, in commerce, which ..., (4) results or is likely to result in the wrongful disclosure or misappropriation of a trade secret or other research or development or commercial information maintained in confidence by another, ... shall be liable in a civil action for unfair competition.

49 Arnold, *A Federal Unfair Competition Law*, 57 TRADEMARK REP. 116 (1967).

> tition. There has been no federal common law in this field since the decision of the Supreme Court in 1938 in *Erie R.R. Co. v. Tompkins.*[50] As a result, unfair competition affecting interstate commerce is now governed by diverse and, at times, conflicting state rulings and approaches. In addition, the conflict of laws problems, when an act of unfair competition occurs in many states, have become perplexing, if not insoluble, to the courts.[51]

This statute seeks to provide some degree of uniformity in this area of the law by providing a framework of congressional guidelines upon which the courts may engraft the more salutary of the common law principles, absorbing these state law principles into a system of federal law.[52] The basic purpose of the proposed legislation is "to create and outline a federal statutory tort of unfair competition affecting interstate commerce, and to establish federal jurisdiction over such tort claims regardless of diversity of citizenship."[53]

Since most trade secret controversies today arise in the context of large multi-state enterprises, the various and diverse state laws with respect to trade secrets may engender serious problems of compliance even for employers, employees, and competitors seeking to act in good faith. Therefore, a uniform law of trade secrets is needed to provide definite standards of conduct for these parties.[54]

The proposed bill does not generally seek to discard or alter the existing substantive state laws. It does seek to facilitate the effectiveness of those laws by applying them on a uniform federal basis[55] and afford the employer protection additional to that gained through the state law systems.

> Section 43(a)(4) . . . is directed to that area of unfair competition dealing with confidential information and trade secret law. Trade secrets that are really secret present no problem; they are clearly protected in all circumstances by all courts. A problem area stems from the fact that most alleged secrets are secrets only in a qualified sense: secret for one purpose but not for another, secret from one person or group of persons but not from another.
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> The amendment [43(a)(4)] is phrased to encompass all wrongful disclosure or misappropriation of trade secrets or other

50 304 U.S. 64 (1938).

51 Brief In Support of Congressional Passage of Proposed Unfair Competition Amendment to Lanham Trademark Act of 1946, [hereinafter referred to as Brief] TRADEMARK REP. 88 (1967).

52 *Id.* at 89.

53 *Id.* at 94.

54 Note, *Trade Secret Law After Sears and Compco,* 53 VA. L. REV. 356, 372 (1967).

55 Brief, *supra* note 51, at 95.

> research, development or commercial information maintained in confidence by the plaintiff. . . . Under this subsection, the key to the granting of relief is intended to be the confidentiality of the information as against the defendant, and commonly though not necessarily always, as against the industry at the time of the use which is alleged to be wrongful. Included also is the protection of a company's confidential "know-how" against loss through defection of key employees; but it is contemplated that courts will reasonably protect an employee's right to use his general experience in new employment.[56]

The language of the statute is phrased broadly to allow the courts maximum freedom to develop the law with as little statutory direction as possible.[57]

Section 43(b) of S.1154 provides that all the remedies of the present Lanham Act would be available in a trade secret claim affecting interstate commerce under section 43(a)(4) just as in an action for infringement of federally registered trademarks.[58] However, these remedies shall not affect any remedies otherwise obtainable under state common or statutory law, or other federal statutes, and it is provided that state jurisdiction shall not be preempted.[59]

III. Restrictive Covenants

In order to protect an employer's trade secrets from intentional or accidental disclosure to a competitor or use in a business of his own by a former employee, it is advisable to include in the employee's contract of employment a restrictive clause or clauses which spell out proper procedures to prevent or remedy disclosures. The clause should be simply and clearly worded and its implications should be explicitly brought to the employee's attention in order that he understand clearly the nature of the confidential relationship into which he is entering. Extraneous matter and unusual or unfair requirements should be avoided. Although a restrictive clause may not be necessary to afford the employer some sort of protection in

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56 *Id.* at 101-02.

57 Arnold, *supra* note 49, at 118.

58 Brief, *supra* note 51, at 106; The Lanham Act remedies are: (a) injunction; (b) actual damages; (c) exemplary damages, up to three times actual damages; (d) profits calculated on a peculiar burden of proof that a defendant can rarely if ever fully carry, wherein plaintiff need only prove gross business income and it is defendant's burden to prove and justify all his allocation of expenses to the particular product involved; (e) any other measure the court deems just as compensatory damages; (f) costs; (g) attorney's fees.

59 Brief, *supra* note 51, at 89.

the courts, it does provide a method of bringing home to the employee the existence of a confidential relationship; and if the clause is breached, it may act as telling evidence of the employee's bad faith. Also, if the clause provides definite procedures for redressing the injury to the employer, it can set standards which a court may apply in awarding relief.

There are two basic types of restrictive covenants which should be examined and differentiated. The first is the covenant of non-competition which may be used to protect a trade secret when merely to permit the employee to work in the same area would almost of necessity result in disclosure of the secret. The second type is the covenant of non-disclosure of trade secrets.

The primary questions which the attorney must ask himself in preparing these clauses for an employer seeking protection are: will these clauses stand up in court under a contest of their validity; if the restraint is overly broad, will a court pare the covenant down to a reasonable scope and enforce it in that modified form; or will the covenant be declared completely unenforceable?

Many employees of American businesses are subject to covenants of non-competition with former employers following termination of their employment. The employees required to become parties to these restrictions are commonly managerial, technical, and sales personnel having access to an employer's confidential information.[60] A covenant of this type will generally provide that the employee will not accept employment from a competitor or set up his own competing business for a specified period of time within a certain geographical area.[61] Covenants of this type have been traditionally considered at common law to be in restraint of trade and have been the subject of repeated litigation.[62] Their treatment by the courts has reflected the developing industrial, technological, and business methods, as well as the prevalent social values, including freedom of contract, personal economic freedom, and business ethics; however, the basic interests which enter into the controversy have not changed.[63]

From the standpoint of the employer these postemployment restrictions are probably the only really effective way in which he can prevent employees from misappropriating valuable trade secrets.

60 Blake, *Employee Agreements Not to Compete*, 73 HARV. L. REV. 625, 626 (1960) [hereinafter cited as Blake].

61 *Id.* at 626.

62 Smith v. Scott, 4 Paton 17 (H.L. 1798) (Scot.).

63 Blake at 626-27.

Without the protection given by these covenants, the businessman could not afford to foster research programs or to seek substantial improvement of his business methods. In addition, refusal to enforce these covenants would impair the freedom of communication necessary for efficient operation of businesses.[64]

From the employee's point of view these restrictive covenants impair both his economic mobility and his personal freedom to follow his own interests. These covenants also detrimentally affect competition by deterring potential competitors and by slowing the dissemination of ideas, processes, and methods. They weaken the employee's bargaining power with the employer and prevent the employee's movement to the job in which he may most effectively utilize his skills.[65]

No commitment not to compete can be implied from an ordinary employment contract.[66] Courts tend to look critically upon this type of restraint, and often discover that the parties to the restrictions were in unequal bargaining positions so that the restraints were most likely imposed upon the employee rather than bargained for.[67]

> They may find that the employee has improvidently given up his only valuable economic asset, specialized proficiency arising from experience or training. [Because of this] . . . courts are more likely to declare an employee covenant invalid as unreasonable, or, in giving injunctive relief, they are more likely to require that an employer settle for less thorough going protection than that accorded a transferee of a property interest.[68]

This inequity in bargaining power may be at least partially negatived by the fact that the employment market has become highly competitive, especially with respect to the more highly qualified personnel that would have access to an employer's secret information. Many of these personnel are refusing to agree to the restrictions on their economic freedom and mobility.[69]

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64 *Id.* at 627.

65 Winston Research Corp. v. Minnesota Mining & Mfg. Co., 350 F.2d 134, 137 (9th Cir. 1965).

66 Inboden v. Hawker, 41 N.E.2d 271, 276 (Ohio App. 1941); Curry v. Marquart, 133 Ohio St. 77, 11 N.E.2d 868 (1937).

67 Blake, *supra* note 60, at 648.

68 *Id. See, e.g.,* Kadis v. Britt, 224 N.C. 154, 29 S.E.2d 543 (1944); Arthur Murray Dance Studios, Inc. v. Witter, 62 Ohio L. Abs. 17, 45-46, 105 N.E.2d 685, 704 (C.P. 1952).

69 Note, *Validity and Enforceability of Restrictive Covenants Not to Compete,* 16 W. RES. L. REV. 161, 162 (1964).

Even though covenants not to compete for a time subsequent to employment may be found invalid, they are necessary in the cases where a need for protection does exist. This is so because

> An injunction not to disclose can seldom undo or effectively prevent the doing of the real damage. Even in the best of good faith, a former technical or "creative" employee working for a competitor, or in business for himself in the same or a related field, can hardly prevent his knowledge of his former employer's confidential methods or data from showing up in his work.[70]

In *Allis-Chalmers Mfg. Co. v. Continental Aviation & Engineering Corp.*,[71] it was held that a simple injunction against the use and disclosure by a former employee of the plaintiff who had been hired by one of plaintiff's competitors would be inadequate in view of the virtual impossibility of the employee's performing all his prospective duties for the competitor without giving the competitor the benefit of the former employer's confidential information. The court enjoined the employee from working for the competitor in the capacity in which he had been employed while with the plaintiff.

The traditional dimensions of these restraints have been those of time and space. However, with the growing complexity of employment duties, it has been necessary to develop a new dimension in regard to the restraints. "The 'activity' dimension was not an issue in the earliest cases. . . . [D]ivision of labor and specialization now make it of the utmost importance that a restraint define carefully the activities in which the employee is not to engage"[72] in order that the covenant not be held unreasonable. A provision in an employment contract which prohibits disclosure of particular trade secrets will usually not impair an employee's opportunities for related employment and for this reason will have few problems in the courts as to invalidity based on any unreasonableness of the restraint. However, if the covenant not to disclose contains a general prohibition against the disclosure of all trade secrets, the restraint would naturally be far more restrictive on any future employment opportunities of this employee.[73] This is especially so in Ohio due to the very broad definition of trade secret recently adopted in the *Cord* case.[74] These broad restraints not to disclose may therefore have re-

70 Blake, *supra* note 60, at 669-70.

71 255 F. Supp. 645 (E.D. Mich. 1966).

72 Blake, *supra* note 60, at 675.

73 16 W. Res. L. Rev., *supra* note 69, at 173.

74 Albert B. Cord Co. v. S & P Management Services, Inc., 194 N.E.2d 173 (Ohio C.P. 1963) *rev'd on other grounds,* 2 Ohio App. 2d 148, 207 N.E.2d 247 (1965).

strictive effects as potent as any non-competition restraint. This presents a strong argument for the proposition that the same standards should be applied to these broad non-disclosure covenants.[75]

In all but the smallest businesses it is administratively impossible to tailor each covenant to the particular requirements of the individual employee. Relatively few forms must be used for large numbers of employees in divergent circumstances. Even when the employer acts in absolute good faith in creating restrictions, a particular restraint as applied to a particular employee may be more burdensome than would have been necessary if the restraint had been drawn up with this specific employee in mind. Still, the facts before the court may indicate that injunctive relief is both appropriate and necessary.[76]

The alternative argument is that if judicial modification is freely applied, employers could fashion overly restrictive covenants knowing that, if the facts of the particular case call for it, the court will modify the restraints and enforce them as modified. The clauses will then exercise an *in terrorem* effect on the employees subject to them and restrict their mobility.[77]

The general approach to the resolution of this dilemma of conflicting interests should be apparent. Where it is evident that an employer's policy with respect to the imposition of these restraints on his employees is generally fair and designed to afford protection only to that empolyer's legitimate interests, a court should modify the covenant involved if such modification is necessary to provide reasonable protection for the employer with as little burden as possible on the employee. Conversely, when it is evident that an employer's fundamental policy in requiring these clauses is to gain an advantage in bargaining position over the employee, to tie the employee to his job, or to achieve some illegitimate purpose, severance or modification of the terms of the restrictions should be denied by the courts.[78]

When considering the validity of post-employment covenants not to compete, the Ohio courts have ruled that the restraint is valid if reasonable in view of all the facts of the particular case, with respect to the employer, the employee, and the public.[79] These cove-

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75 Blake, *supra* note 60, at 678.

76 *Id.* at 683.

77 *Id.* at 682-83.

78 *Id.* at 683-84.

79 Arthur Murray Dance Studios, Inc. v. Witter, 105 N.E.2d 685, 686 (Ohio C.P. 1952).

nants are reasonable only if the restraints are no greater than necessary to protect the employer in some legitimate interest, are not unduly oppressive on the employee, and are not injurious to the public.[80]

> In addition to the absence or presence of limitations as to time and space, when attempting to decide the reasonableness of the restraint, the courts have considered the following factors: . . . ; whether the employee is possessed with confidential information or trade secrets; whether the covenant seeks to eliminate competition which would be unfair to the employer or merely seeks to eliminate ordinary competition; whether the covenant seeks to stifle the inherent skill and experience of the employee; whether the benefit to the employer is disproportionate to the detriment to the employee; whether the covenant operates as a bar to the employee's sole means of support; . . . and whether the forbidden employment is merely incidental to the main employment.[81]

This is by no means an exhaustive listing of the factors considered by the courts in determining the reasonableness of a restrictive covenant; however, these are some of the more important factors to be considered.

The restraint must be limited as to time and space, and must not restrain the employee more than is reasonably necessary to protect the employer's business.[82] The determination of reasonable necessity is dependent upon the nature and extent of the employer's business and the nature and extent of the services rendered by the employee.[83]

If a court decides after considering all the above-mentioned factors that a particular restrictive covenant is reasonable as to time, space, employer, employee, public, and any other factors the individual court might happen to include in its analysis, then it will find the restraint to be valid. A court, however, might easily find a restraint invalid and unreasonable. In 1964, in the case of *Extine v. Williamson Midwest, Inc.*,[84] Ohio acknowledged its adherence to the "blue pencil" rule as to unreasonable restraints. Essentially, the "blue pencil" doctrine holds that, if a court can render an unreasonable covenant reasonable by deleting the offensive or unreasonable

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80 *Id.*

81 Extine v. Williamson Midwest, Inc., 176 Ohio St. 403, 406, 200 N.E.2d 297, 299 (1964).

82 Briggs v. Butler, 140 Ohio St. 499, 45 N.E.2d 757, 758 (1942).

83 *Id.*

84 176 Ohio St. 403, 405, 200 N.E.2d 297, 299 (1964).

parts, it should so delete and enforce the restraint as to the remainder.[85] The simplest example of the rule as applied is a clause restraining the employee from competing with his former employer in Youngstown, in Ohio, and in the United States. If a court should find that the employer does business only in Youngstown, the restraint as worded would be considered unreasonable; and, applying the "blue pencil" or partial validity rule, the court would delete the area restrictions as to Ohio and the United States, enforcing the restriction only as to Youngstown.

The *Extine* case did acknowledge the existence of a growing minority position that does not require divisibility of terms in order to modify the restraint and enforce it in that modified form;[86] however, that court did, for the time being at least, reject this position in favor of the traditional "blue pencil" test of validity.[87] The "blue pencil" rule in its traditional form was reaffirmed recently in two late 1967 courts of appeal cases,[88] so it appears that for the present the Ohio courts will continue either to require the terms of the restrictive covenant to be divisible or to reject them altogether if they find them to be unreasonable. The degree to which the courts ultimately adhere to the "blue pencil" test will eventually be ascertained when the Ohio Supreme Court is confronted with a time restriction that is clearly unreasonable and indivisible, but the situation before the Court does call for some restraint to protect a legitimate interest of the employer.[89]

Following are examples of two restrictive covenants which might be acceptable to the courts of Ohio and, if so, would assure the employer the maximum possible protection of his trade secrets from misappropriation in any unlawful form. It must be emphasized that these covenants are generalizations and that each should be adapted as much as possible to the peculiar needs of the employer.

Covenant of Non-disclosure

All information of a business or technical nature imparted to or learned by the employee in the course of his employment

85 E.P.I. of Cleveland, Inc. v. Basler, 12 Ohio App. 2d 16, 22, 230 N.E.2d 552, 556 (1967).

86 Extine v. Williamson Midwest Inc., 176 Ohio St. 403, 405, 200 N.E.2d 297, 299 (1964).

87 *Id.*

88 Gobel v. Laing, 12 Ohio App. 2d 93, 231 N.E.2d 341 (1967); E.P.I. of Cleveland, Inc. v. Basler, 12 Ohio App. 2d 16, 230 N.E.2d 552 (1967).

89 Krieder, *Trends In the Enforcement of Restrictive Employment Contracts*, 35 U. CINN. L. REV. 16, 29 (1966).

> with respect to the business of the Company, or its affiliates, including the improvements, inventions and discoveries . . . (which employee developed or shared in the development of as a function of his employment with the company), shall be deemed to be confidential and shall not be disclosed by the employee to anyone outside the employ of the Company or its affiliates without the Company's express authorization, unless such information has been made generally available to the trade. If the employee leaves the employ of the Company, such authorization to disclose information must be obtained in writing, and he shall not take with him any originals or copies of any drawings, other documents, or development or pre-production models containing or disclosing information. The business and technical information developed and acquired by the Company is among the employer's most valuable assets, and its value may be unwittingly destroyed by casual dissemination. All employees are therefore expected to safeguard this information as carefully as other property of the employer.[90]
>
> Covenant Not to Compete
>
> Employee agrees that following termination of his employment with Employer he will not engage in competition with Employer in any form, whether as an employee of a competitor or otherwise, in an identical or similar capacity as that in which he engaged while with Employer. The parties acknowledge that these restraints are necessary to protect legitimate interests of Employer, including but not limited to trade secrets and other confidential information learned by Employee in the course of his employment.
>
> These restrictions on competitive employment are to have effect for a period of *X* years, *Y* months, following the termination of employment, or if the court should find this period to be longer than necessary in this case, for that period of time which it finds necessary to afford the Employer's interest reasonable protection. The Employee agrees not to compete with Employer in an area of *X* miles in any direction around the city of *A*, in the county(ies) of *B*, *C*, and *D*, and the state(s) of *E*, *F*, and *G*.

The starting area unit will depend on the nature and size of the business involved. The areas to be prohibited should be separately specified. This is to make it possible for an Ohio court to apply the "blue pencil" test of validity to those severable parts of the restraints, throwing out those it finds unreasonable and giving effect to those it finds reasonable.

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90 *See* Harding, *Trade Secrets and the Mobile Employee*, 22 BUS. LAWYER 395, app. *B* at 411 (1967).

An employer may also desire to formulate provisions to the general effect that:

1. Employer agrees to pay Employee a certain sum or percentage of Employee's former salary for the period during which Employee refrains from competing with Employer.
2. Employee agrees that he will pay Employer X sum as liquidated damages in event of breach of this restrictive covenant by Employee.

IV. Conclusion

Ohio has adopted an extremely broad definition of trade secret, indicating a determination that the term in any general sense is indefinable. The courts have been willing on a case by case basis to find that a trade secret exists in a particular case. The basis of most trade secret cases is a confidential relationship existing between the employer and employee, and an implied duty rests on an employee not to disclose the employer's trade secrets to outsiders. There are a variety of remedies available against misappropriators of an employer's trade secrets, the most common being a temporary injunction restraining use and disclosure. If enacted, section 43(a)(4) of S.1154 will provide a basis for a much needed uniform system of trade secrets law enabling employees and employers to avoid the confusion that accompanies the present system. The way for employers to obtain adequate protection of their trade secrets is to require their employees to enter restrictive covenants with the employer to the effect that the employee will not compete with the employer for a specified period of time and in a certain area following termination of employment. These restrictive covenants are valid if reasonable as to the employer, the employee, and the public. Ohio continues to apply the "blue pencil" test as to modification of these restrictive covenants if the terms are considered unreasonable and require that the terms be divisible to be so modified. Thus Ohio attorneys should structure such restrictive covenants carefully so that in the event of a court challenge all that is reasonable will continue to be enforceable.

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